Economic Trends

Households in Alberta continue to feel the effects of the economic downturn and pull back on spending. This is resulting in ongoing weakness in residential investment and retail sales. Amid the downturn, however, there are signs that the large declines in some indicators may be abating. Manufacturing shipments and rigs drilling have improved in recent months. Alberta's labour market got a welcomed employment boost in August and Alberta's population continues to expand at a solid pace. This month's Infocus provides an overview of recent trends in the global economy.

Key Indicators

Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	August	2,251	-2.3%
Unemployment Rate	August	8.4%	+2.3 p.p.
CPI Inflation (unadjusted)	August	0.7%	-1.1 p.p.
Retail Sales	July	$6.1 B	-3.8%
Housing Starts (annualized)	August	20,028	-42.2%
Rigs Drilling (unadjusted)	September	80	-29.0%
Manufacturing Shipments	July	$5.1 B	-11.3%
Exports (unadjusted)	July	$6.1 B	-27.9%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

Immigrants boost population

As of July 1st, Alberta's population grew 1.8% year-over-year (y/y) to an estimated 4,252,879, boosted by immigrant landings and robust natural increase. In the second quarter, over half of Alberta's growth was driven by net migration, which added 10,302 new residents to the province, as net international migration offsetting net interprovincial outflows. Alberta also posted a natural increase of 8,644 in the quarter, the result of 14,808 births minus 6,164 deaths. Alberta's growth has slowed significantly from the pace prior to the recession, but remains above the national average.

Some relaxing of job market strain

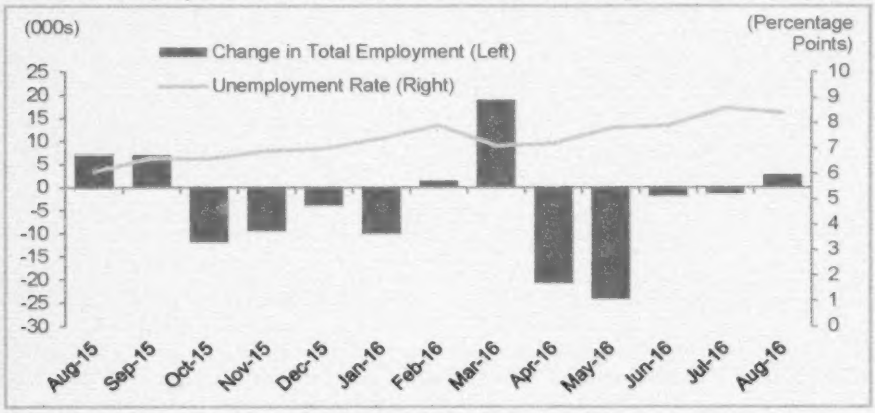
A few early signs suggest that downward pressure on Alberta's labour market is easing. Employment in August (+2,700) was up for the first time since March and job losses over the prior two months were less severe (Chart 1). The unemployment rate ticked down to 8.4% after hitting a twenty-year high in July. However, job vacancies continue to fall and EI claims remain stubbornly elevated. This is partially explained by new rules to prolong the EI benefit period that led to a spike of claims in July. Average weekly earnings remained over 3% lower through the first seven months of this year compared to the same period last year.

Consumers staying at home

Alberta households are coping with the weak job market by continuing to reduce spending. Through July, retail sales were down 2% from the same period in 2015. Big-ticket items like cars and trucks remained down year-to-date. Spending on a variety of consumer goods also declined including groceries, clothing, electronics and appliances. Constrained consumer spending, low energy prices and a sluggish housing market have limited inflationary pressures. CPI inflation was 0.7% in August and has steadily moderated since the start of 2016.

Chart 1: Employment declines easing

Alberta unemployment rate and month-over-month change in total employment



Sources: Statistics Canada and Alberta Treasury Board and Finance

Alberta Business Sector

Oil production bounces back after wildfire but activity remains weak

While broad-based weakness in Alberta's energy sector persists, Alberta's oil production started to normalize following maintenance outages and wildfire disruptions in the spring. Bitumen (+20% m/m) and synthetic (+63% m/m) crude production jumped in June after sharp declines in April and May. The number of oil and gas rigs drilling remains depressed, but has picked up a bit in recent months. Low prices have encouraged a shift to more productive technologies, which has increased metres drilled per well this year. Lower drilling activity has supressed conventional oil production, which declined 12% in the first half of the year compared with 2015.

Small lift in manufacturing shipments

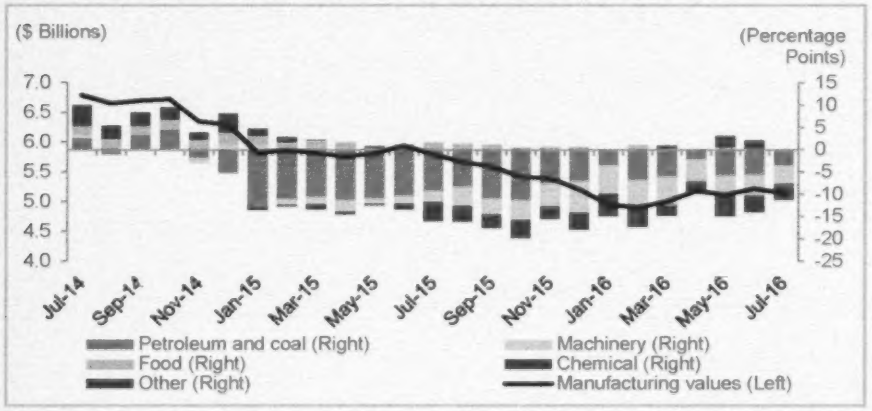
While manufacturing shipments are well below their pre-recession levels, they have improved slightly in recent months (Chart 2). After hitting a low in February, manufacturing shippments picked up, hovering around $5 billion per month through July. The steep decline in machinery manufacturing eased off, while petroleum and coal, wood product and chemical manufacturing shipments increased. Despite the recent stabilization, manufacturing shipments remain 13% lower year-to-date. Machinery shipments, which have been hit very hard, were still down almost 50% from 2015, while fabricated metals, non-metallic mineral products, and plastics and rubber also saw declines.

Residential investment continues to suffer

The impact of low oil prices and the weaker economy has clearly spread to residential investment. While renovation spending has picked up over the last three quarters, spending on new dwellings continued to decline. This dragged residential investement down almost 17% in the first half of 2016. Investments in single unit dwellings remained especially weak, falling over 30% year-to-date. The weakness has spread to other categories, as new apartment investments posted the largest year-over-year declines in almost six years in June, with a further decline reported in July. Falling housing starts, which tumbled in August to the lowest level since early 2011, and ongoing weakness in residential building permits point to continued weakness in residential investment.

Chart 2: Manufacturing shipments levelling off

Manufacturing values and contributions to year-over-year growth



Sources: Statistics Canada and Alberta Treasury Board and Finance

Global Economy

OPEC announces intent to cut

OPEC has agreed to use their November meeting to finalize a plan to reduce oil production. The proposed plan calls for a collective reduction of between 200 to 700 thousand barrels per day. OPEC currently produces about 33.2 million barrels per day, which accounts for an estimated 35% of the total daily global world liquids supply. The announcement initially sent the price of West Texas Intermediate (WTI) up 5%. Gains were limited though, as discussions around the actual production limit for each OPEC country will not take place until the November meeting.

Canadian economy recovers from wildfires

A 0.5% July bounce in Canadian GDP helped lift Canada's economy out of a second quarter decline that saw the sharpest fall since the Great Recession. The source of the decline and the subsequent rise can be largely attributed to the Wood Buffalo fires, as oil production was restored after outages during the fire. The mining, quarrying, and oil and gas extraction sector increased in July for the second month in a row following four consecutive monthly declines. The results in other sectors were more of a mixed bag, with construction declining and most other sectors posting modest gains. Despite the July increase, the annualized growth for the Canadian economy was still modest.

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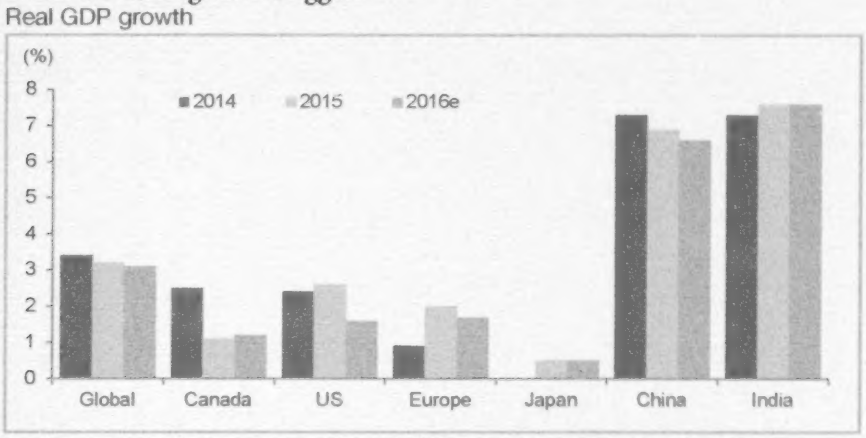
Global growth continues to disappoint

The global economy continues to underwhelm despite accommodative monetary policy (Chart 1). Ongoing weakness in the energy sector, slowing industrial production, and weaker-than-expected global growth have resulted in declining global trade flows and waning business investment. Growth is being shored up by solid consumer spending and service sector growth.

Moderate outlook for China

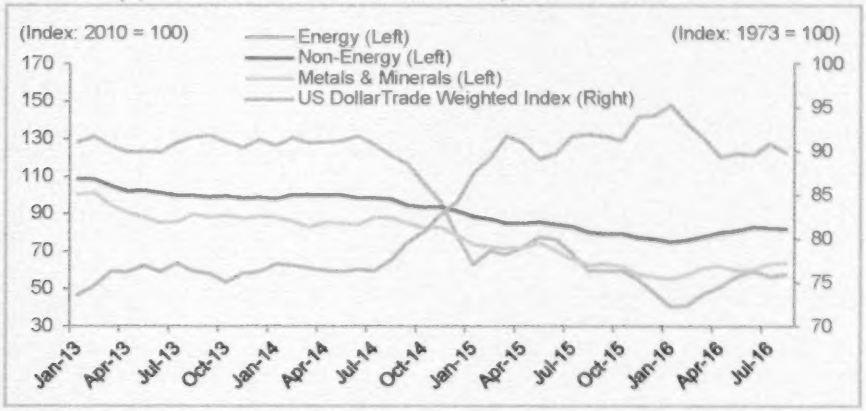
The Chinese economy's ongoing transition to consumer and service-oriented growth is creating ripple effects in the global economy. China's economic growth is expected to slow from around 10% in 2011 to around 6.6% this year, according to the latest IMF forecast. China represents a large proportion of global commodity demand, and the shift away from industrial production has led to excess capacity in industrial sectors and lower demand for a range of commodities. This has helped to keep a lid on global commodity prices this year (Chart 2). Despite the slowdown, China's economic growth continues to outpace most other countries.

Chart 1: Global growth sluggish
Real GDP growth



Source: International Monetary Fund, World Economic Outlook - October 2016

Chart 2: Commodity prices remain subdued
Commodity price indices and US dollar vs major currencies



Source: World Bank and Federal Reserve Board

Other emerging markets mixed

The performance of other key emerging market economies has varied. After undertaking an ambitious reform program last year, India remains a global growth leader; however, industrial demand has moderated this year. The oil-producing countries of Russia and Brazil are feeling the effects of low oil prices, in addition to struggling with a range of political and economic challenges. An improvement in oil prices has softened the downturn this year, but both economies remain in recession.

Advanced economies limping along

Economic growth has moderated in advanced economies. Consumers have made a positive contribution on both sides of the border, but growth in the US and Canada is being hampered by ongoing weakness in energy investment. In the US, a strong US dollar and weaker global demand have limited growth in exports. In Canada, non-energy investment and exports have been slow to improve and offset declines in the energy sector. The economy also took a hit with the decline in activity associated with the Wood Buffalo wildfire in the second quarter. Japan continues to struggle with low growth and deflation. The recovery in the Eurozone remains modest despite exceptional support from monetary policy and low energy prices.

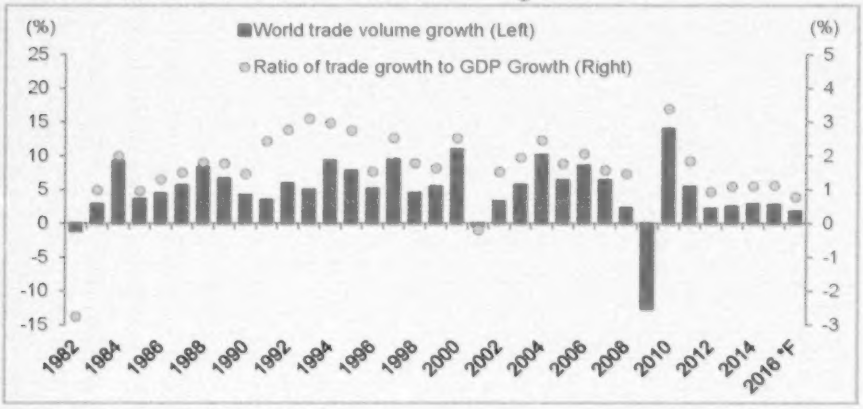
Global trade slowing

Ongoing energy sector weakness, general malaise in the global economy and the slower pace of demand are weighing on global trade. The World Trade Organization (WTO) estimates that 2016 will be the slowest year for trade and output growth since the financial crisis of 2009 (Chart 3). Trade growth has slowed alongside the economy in China. Low oil prices mean that oil exporters are receiving a fraction of their previous incomes and are importing less from other regions. With the US and Canadian economies off to a slow start in the first half of 2016, import growth has also slowed in North America. The slowdown in China and waning demand from oil-exporting countries have resulted in declining export volumes from advanced countries. The WTO forecasts that the ratio between trade growth and world GDP will fall below 1:1 this year, the first time in 15 years.

Business investment weak

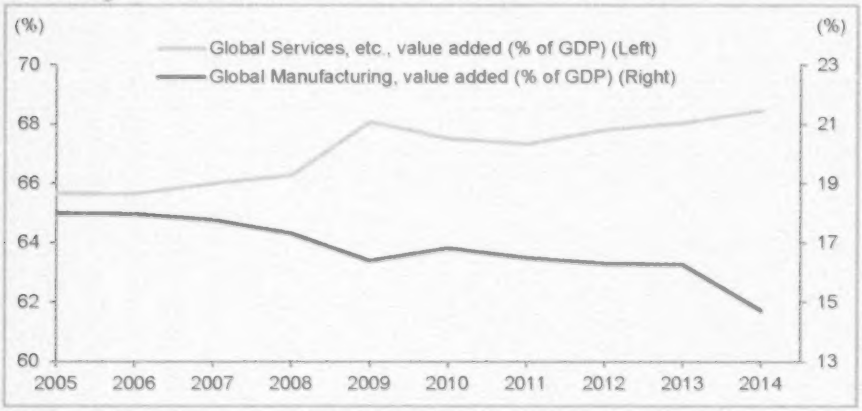
Within the current global economic climate, non-residential investment has been lacklustre globally. Some of the weakness is due to continued declining investment in the energy sector, but with global industrial production subdued in the first half of 2016, investment in export-oriented industries in many advanced economies has also waned. Business investment on non-residential structures and equipment declined in both the US and Canada, removing 0.4% and 0.5% from GDP growth respectively in the first half of 2016. In the Eurozone, the level of investment growth has slowed substantially from 2015 and has been essentially unchanged in the first half of 2016.

Chart 3: Global trade declining
World trade volume and the ratio to world GDP growth



Source: World Trade Organization

Chart 4: Service industries increasingly important
Share of global value added GDP



Source: World Bank - World Development Indicators

Consumer spending solid

Growth in consumer spending has held up well in most advanced economies and major emerging markets. In the US, consumer spending increased by around 3.0% in the first half of 2016, and consumers are supporting growth in Canada and the Eurozone countries. Both China and India are benefiting from increasing spending from a growing middle class. In China, retail sales increased almost 10% over the first 8 months of 2016. In India consumer spending remains robust, increasing nearly 7% year-over-year. Spending has been supported by surprisingly resilient labour markets, low interest rates, and lower energy prices.

Steady service sector

Amid the slowdown in investment and trade worldwide, the service sector continues to expand. Services accounted for about 73% of the economic growth over the last 6 quarters in the EU. In the US and Canada, the service sector accounted for most of the growth in real GDP in the first half of 2016. It is becoming an increasingly larger proportion of GDP globally (Chart 4), particularly in emerging markets such as China and India. The service sector has benefited from rising consumer spending and is getting a further boost from advancements in technology.

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